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STATE FOR WHA/CEN, WHA/EPSC AND EEB  
TREASURY FOR SARA SENICH

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TAGS: [EFIN](#) [ECON](#) [ETRD](#) [PREL](#) [PGOV](#) [NU](#)  
SUBJECT: NICARAGUA: BANKERS REPORT STABILITY, BUT NO GROWTH

Classified By: Ambassador Robert J. Callahan for reasons 1.4 b & d.

11. (C) Summary. Despite rumors of economic meltdown and possible capital flight, Nicaragua's highly dollarized banking sector appears to be holding its own. Officials from the Superintendent of Banks (SIBOIF) and the Central Bank as well as prominent banking executives tell us that liquidity is good and exposure to badly performing loans is manageable. Most high-net-worth Nicaraguans and well-capitalized companies minimized their exposure to risk in Nicaragua before President Ortega took office in 2007; the result is that most savings and checking accounts here are modest in size. Regrettably, diminished access to credit from foreign financial institutions has fueled a reluctance on the part of Nicaraguan banks to provide financing for medium to long-term investments, which greatly hinders economic growth. HSBC bank announced in January it would close its offices in Nicaragua, but its presence here was quite small (HSBC will maintain a representative office in Managua). The head of SIBOIF privately told us that Citibank is looking to sell its Nicaraguan operations (which focus almost entirely on credit cards, but Citibank has made no public statements to this effect). End Summary.

Banks Weather the Storm...

12. (C) Luis Rivas, General Manager of BANPRO (Nicaragua's largest bank with nearly \$1 billion in assets) told econoff on March 11 that deposits remain stable, despite seasonal fluctuations in December and January. According to Rivas, capital flight is not a problem; BANPRO's depositors realize that better returns are simply not available elsewhere given the current international economic climate. Rivas stressed that BANPRO, as a prominent local bank, enjoys solid and deep relationships with its depositors and shareholders, a factor that would minimize the risk of a run on deposits in a time of crisis. Julio Cardenas, Executive Director of BANCENTRO (Nicaragua's second-largest bank with \$750 million in assets), detailed a similar relationship with his bank's depositors.

13. (C) Victor Urcuyo, the Superintendent of Banks (SIBOIF), assured econoff that the Nicaraguan banking system remains fundamentally sound. All major banks maintain adequate liquidity and reserve levels, and in some cases they have exceeded SIBOIF mandates (banks here are required to maintain reserves of 16.25% of total deposits). On the possibility of capital flight, Urcuyo observed that most wealthy Nicaraguans minimized their financial exposure to Nicaragua before President Ortega took office in January 2007. Consequently, most deposits in the Nicaraguan banking system are modest in

value. Many businesses owned by wealthy Nicaraguan families maintain accounts here simply for working capital purposes. These depositors are unlikely to transfer much more cash outside of the country. Note: Deposits and loans denominated in U.S. dollars account for at least 70% of the total in the three largest banks in Nicaragua (out of the eight banks regulated by SIBOIF). Urcuyo pointed out that while many local depositors view the dollar as a hedge, borrowers with loans denominated in dollars are highly vulnerable to a cordoba devaluation. End Note.

...But Withhold Financing for New Projects

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¶4. (C) Both Rivas and Cardenas told econoff that the primary negative consequence of the global financial crisis for local banks is the tightening of international commercial credit. Cardenas listed several established lines of credit that are no longer available to BANCENTRO from prominent U.S. financial institutions such as Wachovia. In turn, Cardenas said, fewer financial resources are available to support loans here, particularly for clients requiring medium to long-term financing such as in construction, housing, and real estate development. Such a scenario, compounded by contracting local and international demand, greatly contributes to retarded economic growth. Local economists have revised their 2009 GDP growth estimates downward to 1% and perhaps even into negative territory.

HSBC Pulls Out, Citibank Focuses on Credit Cards

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¶5. (C) HSBC announced in January that it would close its branches in Nicaragua, but would maintain a representative office in Managua. HSBC's presence in Nicaragua was very small, with only \$49 million in assets, created from its 2005 purchase of Panama-based Banco del Istmo. Urcuyo told econoff that Citibank, which launched operations in Nicaragua under its own name last September, is already looking to sell (Citibank has stated publicly its intention to stay in the Nicaraguan market). One reason why Citibank may be looking to sell is the fact that roughly 98% of its operations here focus on credit cards, a sector that, while extremely profitable the last few years, is now experiencing default rates of about 9%, way above the typical rate of 1-2%. U.S. Department of Treasury advisors conducting a training workshop with the Nicaraguan counterpart to the U.S. FDIC in mid-March flagged this high default rate as a warning signal for the banking industry here.

Comment

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¶6. (C) While we expect the number of non-performing loans to rise in Nicaragua as a result of the international financial crisis, the major banks do appear to be maintaining liquidity. Already the smallest in Central America (about \$3.6 billion total assets in the entire financial system), Nicaragua's bankers have historically displayed little appetite or capacity to provide desperately needed credit to support medium or long-term investments. While these conservative lending practices have been in place for many years, they now serve to protect the banks from the international financial crisis.

CALLAHAN